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**ANNUAL AUDITED REPORT**

**FORM X-17A-5**

**PART III**

SEC FILE NUMBER
8-053512

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Probitas Funds Group, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

417 Montgomery Street, Suite 910

(No. and Street)

San Francisco, CA 94104

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Craig A. Marmer

(415) 402-0700

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Price, Scott B.

(Name - if individual, state last, first, middle name)

417 Montgomery Street, 3rd Floor San Francisco, CA 94104

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED

AUG 19 2004

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THOMSON  
FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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*[Handwritten signatures and initials]*

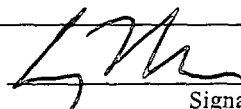
## OATH OR AFFIRMATION

I, Craig A. Marmer, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Probitas Funds Group, LLC, as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

  
\_\_\_\_\_  
Signature  
Managing Director  
\_\_\_\_\_  
Title

\_\_\_\_\_  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2003

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Certified Public Accountants

SCOTT B. PRICE & COMPANY  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Probitas Funds Group, LLC  
(A Delaware Limited Liability Company)

We have audited the accompanying statement of financial condition of Probitas Funds Group, LLC (A Delaware Limited Liability Company) as of December 31, 2003 and the related statements of income, member's equity and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Probitas Funds Group, LLC (A Delaware Limited Liability Company) as of December 31, 2003 and the results of its operations and its cash flows for the year then ended, in conformity with U. S. generally accepted accounting principles.

Our audit has been made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 10 – 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'S. Price'.

Scott B. Price & Company  
Certified Public Accountants  
San Francisco, California

February 22, 2004

417 Montgomery Street  
3rd Floor  
San Francisco, CA 94104

415-398-5900

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2003

ASSETS

Current assets	
Cash	\$ 3,254,133
Accounts receivable	1,613,489
Prepaid expenses	22,526
Due from affiliate	<u>11,360</u>
Total current assets	4,901,508
Fixed assets	
Furniture, fixtures and equipment	95,623
Leasehold improvements	<u>5,565</u>
	101,188
Less: accumulated depreciation and amortization	<u>(17,911)</u>
Fixed assets, net	83,277
Other assets	
Non-current accounts receivable	554,000
Investments	8,750
Security deposit	<u>8,419</u>
Total other assets	<u>571,169</u>
Total assets	<u><u>\$ 5,555,954</u></u>

LIABILITIES AND MEMBER'S EQUITY

Current liabilities	
Accounts payable	\$ 44,860
Accrued expenses	74,155
Retirement plan payable	<u>143,573</u>
Total liabilities	262,588
Member's equity	<u>5,293,366</u>
Total liabilities and member's equity	<u><u>\$ 5,555,954</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 2003

Revenue	\$ 7,195,576
Operating expenses	
Salaries and bonuses	866,472
Contracted services	316,830
Travel	159,284
Rent	103,969
Profit sharing contributions	80,624
Employee benefits	73,074
Professional fees	69,272
Office expense	65,115
Payroll taxes	49,416
Meals and entertainment	38,106
Legal and accounting	33,025
Telephone	23,694
Taxes and licenses	21,716
Internet access fees	19,956
Insurance	19,817
Depreciation	11,713
Marketing	10,704
Postage and delivery	10,655
Computer maintenance	9,086
Regulatory fees	4,175
Retirement plan administration fees	3,340
Unreimbursed client expenses	3,120
Seminars	3,059
Dues and subscriptions	1,319
Charitable donations	<u>750</u>
Total operating expenses	<u>1,998,291</u>
Operating income	5,197,285
Other income/(expense)	
Interest income	27,866
Interest expense	<u>(413)</u>
Total other income/(expense)	<u>27,453</u>
Net income	<u>\$ 5,224,738</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
STATEMENT OF MEMBER'S EQUITY  
YEAR ENDED DECEMBER 31, 2003

Beginning balance	\$ 210,628
Contributions	285,000
Withdrawals	(427,000)
Net income	<u>5,224,738</u>
Ending balance	<u>\$ 5,293,366</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 5,224,738
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	11,713
Change in assets and liabilities:	
(Increase)/decrease in assets:	
Accounts receivable	(1,951,162)
Prepaid expenses	(14,986)
Security deposits	373
Due from affiliate	(7,862)
Increase/(decrease) in liabilities:	
Accounts payable	44,091
Accrued expenses	(12,684)
Retirement plan payable	<u>143,573</u>
Net cash provided by operating activities	3,437,794

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(42,818)
Investments	<u>(8,750)</u>
Net cash used for investing activities	(51,568)

CASH FLOWS FROM FINANCING ACTIVITIES

Member's contributions	285,000
Member's withdrawals	<u>(427,000)</u>
Net cash used for financing activities	<u>(142,000)</u>
Net increase in cash	3,244,226
Cash at beginning of year	<u>9,907</u>
Cash at end of year	<u><u>\$ 3,254,133</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest	<u><u>\$ 413</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS



PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2003

**1 - THE COMPANY**

Probitas Funds Group, LLC (the Company) was formed and organized in Delaware on July 25, 2001 as a limited liability company. The Company was registered as a limited liability company in the state of California on August 27, 2001 and is based in San Francisco, California. The Company's primary activity is to provide consulting and placement agent services regarding the private placement of securities in investment vehicles and private companies. Probitas solicits investments from institutional and private investors on behalf of the investment vehicles its clients manage. The Company is also engaged in selling private investment portfolios on behalf of its clients.

On February 15, 2002 Probitas Funds Group, LLC became registered as a general securities broker-dealer with the Securities and Exchange Commission pursuant to Section 15c of the Securities Exchange Act of 1934 and became a member of the National Association of Securities Dealers, Inc. The Company was granted a broker-dealer certificate by the California Department of Corporations on March 12, 2002.

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Company maintains its cash in bank deposit accounts, which at times may exceed insured limits. The company has not experienced any losses in such accounts.

Accounts Receivable

No allowance has been provided for uncollectible accounts. Management has evaluated the accounts and believes all are collectible.

Furniture, Equipment and Improvements

Furniture, equipment and improvements are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2003

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Income Taxes

The Company is a limited liability company which has elected to be taxed as a partnership. Members are taxed individually on their share of the Company's earnings. Therefore, no provision or liability for income taxes has been provided for in these financial statements.

Investments

The Company's investments in entities in which Probitas Funds Group, LLC does not have the ability to exercise significant influence are accounted for under the cost method.

**3 - LEASE COMMITMENTS**

The Company leases space under a three year lease that commenced on January 16, 2002. This lease contains the option to renew for a two year period upon expiration. Rent expense for the year was \$103,969.

Future minimum lease payments under the lease are as follows:

<u>Year ended December 31,</u>	
2004	\$ 105,510
2005	4,396

**4 - RELATED PARTY TRANSACTIONS**

During the year the Company made advances to affiliated companies, which are under common control. As of December 31, 2003 the affiliates owed the Company \$11,360.

In November 2003, Probitas Funds Group, LLC entered into an expense-sharing agreement with a United Kingdom affiliate, whereby the UK affiliate will provide services to the Company in exchange for the payment of all UK affiliate operating expenses. As such, the Company has classified all expenses as "Contracted Services", and classifies advances to the UK affiliate as prepayments.

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2003

**5 - NET CAPITAL REQUIREMENTS**

The company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 8 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2003, the Company had net capital of \$2,991,545, which was a \$2,974,041 in excess of its required net capital of \$17,504. The Company's net capital ratio was 11.39 to 1.

**6 - RETIREMENT PLAN**

Effective January 1, 2003, the Company adopted a 401(k) plan for the benefit of its employees. Essentially all employees are eligible to participate if they are employed at the start of the plan year. The Company does not match the employee contributions.

The Company has also adopted a profit sharing plan for all active employees. Under the plan, the Company can elect to make discretionary contributions. The Company made contributions of \$80,624 for the year ended December 31, 2003.

**7 - LONG-TERM INVESTMENTS**

The Company's long-term investment consists of equity in a fund for which Probitas raised capital in 2003. On November 11, 2003, Probitas Funds Group, LLC purchased a .840786% interest in CIVC GP II, LP for \$8,750. This investment is recorded at cost. Unrealized gains and losses will be charged against net earnings when a decline in fair value is determined to be other than temporary. Realized gains and losses are accounted for on the specific identification method. Purchases and sales are recorded on a trade date basis.

## **SUPPLEMENTARY INFORMATION**

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
COMPUTATION OF NET CAPITAL AND NET CAPITAL REQUIREMENTS FOR BROKERS  
AND DEALERS  
PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES AND EXCHANGE ACT OF 1934  
DECEMBER 31, 2003

**COMPUTATION OF NET CAPITAL**

Total ownership equity from Statement of Financial Condition	\$ 5,293,366
Less nonallowable assets:	
Accounts receivable > 30 days	\$ 2,167,489
Prepaid expenses	22,526
Fixed assets, net	83,277
Due from affiliates	11,360
Investments	8,750
Security deposit	<u>8,419</u>
	<u>2,301,821</u>
Net capital before haircuts on securities positions	2,991,545
Haircuts on securities	<u>-</u>
Net capital	<u>\$ 2,991,545</u>

**COMPUTATION OF NET CAPITAL REQUIREMENT**

Minimum net capital required (6-2/3% of aggregate indebtedness)	<u>\$ 17,504</u>
Minimum dollar net capital requirement	<u>\$ 5,000</u>
Net capital requirement (greater of above two amounts)	<u>\$ 17,504</u>
Excess net capital	<u>\$ 2,974,041</u>
Excess net capital at 1000%	<u>\$ 2,965,286</u>

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

Total A.I. liabilities from Statement of Financial Condition	<u>\$ 262,588</u>
Percentage of aggregate indebtedness to net capital	<u>8.78%</u>

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
FOR BROKER-DEALERS PURSUANT TO RULE 15c3-3  
DECEMBER 31, 2003

An exemption from Rule 15c3-3 is claimed, based upon section (k)(2)(i).

INFORMATION FOR POSSESSION OR CONTROL  
REQUIREMENTS UNDER RULE 15c3-3  
DECEMBER 31, 2003

Not applicable

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
RECONCILIATION OF THE COMPUTATION OF NET CAPITAL  
DECEMBER 31, 2003

Per original filing	\$ 2,916,119
Audit adjustments;	
To reverse accrual for 401(k) plan classified as a member withdrawal	85,765
To adjust accrued expenses	<u>(10,339)</u>
Per this filing	<u>\$ 2,991,545</u>

PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)  
SIPC SUPPLEMENTAL REPORT  
DECEMBER 31, 2003

An exemption from filing the SIPC Supplemental Report is claimed as SIPC has suspended assessments based on operating revenues.



**PROBITAS FUNDS GROUP, LLC  
(A DELAWARE LIMITED LIABILITY COMPANY)**

**REPORT ON INTERNAL  
CONTROL STRUCTURE**

**DECEMBER 31, 2003**

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

Probitas Funds Group, LLC  
(A Delaware Limited Liability Company)

In planning and performing our audit of the financial statements and supplemental schedules of Probitas Funds Group, LLC (A Delaware Limited Liability Company) for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the National Association of Securities Dealers, Inc., the New York Stock Exchange, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Scott B. Price & Company  
Certified Public Accountants  
San Francisco, California

February 22, 2004